

Message Text

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PAGE 01 STATE 299594

67

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FM SECSTATE WASHDC
TO AMEMBASSY BUDAPEST

C O N F I D E N T I A L STATE 299594

E.O. 11652: GDS

TAGS: EFIN, HU

SUBJECT: WORLD WAR I FLOUR DEBT

REF: (A) STATE 290452 (B) BUDAPEST 4016

1. DEPARTMENT APPRECIATES EMBASSY'S REPORTING ON ITS INFORMAL CONVERSATIONS WITH AKAR REGARDING THE GOH'S PROBABLE POSITION ON PAYMENTS OF INTEREST ON DEFAULTED PRINCIPLE. WE SHARE EMBASSY'S DESIRE TO MOVE THESE NEGOTIATIONS ONTO THE TECHNICAL LEVEL. HOWEVER, BEFORE DISCUSSIONS OF TECHNICAL QUESTIONS CAN PROCEED, WE MUST HAVE GOH AGREEMENT TO PAY INTEREST ACCRUED ON DEFAULTED PRINCIPAL. WE BELIEVE THAT IF EMBASSY MOVES QUICKLY TO CARRY OUT FULLY THE INSTRUCTIONS FORWARDED IN STATE 290452 THERE IS A POSSIBILITY THAT WE WILL BE ABLE TO RESOLVE THIS ISSUE BEFORE DECEMBER 15, AS THE GOH HAS INDICATED IT WISHES TO DO. THEREFORE, EMBASSY SHOULD PROMPTLY RESUME FORMAL DISCUSSIONS WITH THE
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PAGE 02 STATE 299594

HUNGARIANS, WITH THE FIRST OBJECTIVE BEING THE AGREEMENT OF

THE GOH TO PAY INTEREST AND THE SECOND OBJECTIVE TO SEEK GOH REACTION TO THE SCHEDULE OF PAYMENTS WHICH WAS PREPARED BY TREASURY AND HAND-CARRIED TO BUDAPEST BY GERTH.

2. UNTIL WE HAVE A DETAILED STATEMENT OF THE GOH ACCOUNTING OF PRINCIPAL AND INTEREST DUE ON DECEMBER 15, 1976, IT IS IMPOSSIBLE TO DETERMINE WHERE THE DIFFERENCE OF \$105,635.52, HAS ARISEN. WE HOPE THAT A DETAILED COMPARISON OF THE GOH AND US STATEMENTS WILL REVEAL THE SOURCE OF THE DISCREPANCIES AND THAT DIFFERENCES WILL BE RESOLVABLE ON THE BASIS OF SIMPLE ARITHMETIC AND PRINCIPLES SET FORTH IN THE 1924 AND 1932 AGREEMENTS. WE BELIEVE THAT THE STATEMENT OF ACCOUNTS BROUGHT BY GERTH SHOULD PROVIDE A GOOD BASIS FOR PROCEEDING WITH DISCUSSIONS OF TECHNICAL ASPECTS OF THE CALCULATIONS. IF DISAGREEMENTS ON AMOUNTS DUE IN PARTICULAR YEARS CANNOT BE RESOLVED BY REPRESENTATIVES ALREADY IN BUDAPEST, AN INFORMED TREASURY EXPERT WILL BE SENT TO ASSIST.

3. EMBASSY MAY NOTE THAT THE FIGURES PROVIDED REFTEL ARE NOT ENTIRELY CONSISTENT WITH EARLIER USG ESTIMATES OF HUNGARIAN INDEBTEDNESS WHICH WERE PROVIDED LAST JANUARY. AS A RESULT OF A THOROUGH REVIEW OF THE FLOUR DEBT ACCOUNTS TREASURY HAS DISCOVERED AN ERROR IN THE INTEREST PORTION OF THE ACCOUNTS OF APPROXIMATELY \$100,000.00. THE MAJOR PART OF THIS ERROR IS THE PREVIOUS OMISSION OF INTEREST CHARGES AT THE RATE OF 4 PER CENT ANNUM ON PRINCIPAL OF \$69,342.75, WHICH WAS RESCHEDULED UNDER THE 1932 HOOVER MORATORIUM AGREEMENT, FOR THE YEARS 1943 TO 1975. REFTEL (A) EXPLAINS WHY SUCH CHANGES ARE REQTRFD. TET" EXP A A-ION MAY BE GIVEN TO THE GOH IF THEY INQUIRE WHY THE AMOUNT OF THE US CALCULATION HAS CHANGED.

4. FYI: WE FULLY UNDERSTAND EMBASSY'S PROBLEMS (1) RE POTENTIAL EMBARRASSMENT IN THE EVENT THAT MATHEMATICAL ERRORS MAY STILL EXIST IN COMPLICATED COMPUTATIONS; (2) RE DIFFERENCES BETWEEN USG AND GOH FIGURES. HOWEVER, IT DOES NOT APPEAR NECESSARY FOR A TREASURY REP TO GO TO BUDAPEST UNLESS AND UNTIL SOME CRISIS IN THE AREA OF COMPUTATIONS ARISES. OUR PREEMINENT PURPOSES ARE (1) TO OBTAIN GOH
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 STATE 299594

AGREEMENT TO PAY THE FULL AMOUNT OF PRINCIPAL AND INTEREST AS PROVIDED IN THE 1924 AND 1932 FUNDING AGREEMENTS AND (2) ONLY AFTER THAT TO RECONCILE FIGURES TO THE EXTENT POSSIBLE. WE CANNOT ACHIEVE THESE OBJECTIVES UNTIL EMBASSY PRESENTS OUR POSITION AS FORWARDED IN STATE 290452 TO GOH. WE THEREFORE URGE EMBASSY TO PRESENT OUR VIEWS PROMPTLY. ROBINSON

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